



NATIONAL
ASSOCIATION FOR
LATINO
COMMUNITY
ASSET
BUILDERS

Memorandum

To: Maria Gayosso, Rebecca Roupp, and Scott Clark, City of Tucson
From: Sofia Lopez, Senior Program Manager, NALCAB
Date: June 30, 2018
Subject: CDBG and Section 108 Program Review

In order to provide guidance on possible federal funding sources that may be leveraged for future redevelopment projects in the South 12th Avenue commercial corridor, NALCAB and MDG Associates provide the City of Tucson with an overview of eligible activities under the Community Development Block Grant (CDBG) Entitlement Program and Section 108 Loan Guarantee Program.

CDBG OVERVIEW

As the principal city within the Tucson Metropolitan Statistical Area (MSA), the City of Tucson (City) is an eligible grantee for participation in the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) Entitlement Program. The CDBG Program provides annual grants on a formula basis to entitlement communities to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

HUD determines the amount of each entitlement grantee's annual funding allocation by a statutory dual formula which uses several objective measures of community needs, including the extent of poverty, population, housing overcrowding, age of housing and population growth lag in relationship to other metropolitan areas.

CDBG grants are awarded to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. The City develops its own programs and funding priorities; however, must give maximum feasible priority to activities which benefit low- and moderate-income persons. Over a 1, 2, or 3-year period, as selected by the City, not less than 70 percent of CDBG funds must be used for activities that benefit low- and moderate-income persons.

ELIGIBLE ACTIVITIES

To qualify for CDBG funding, each activity must meet one of the following national objectives for the program:

1. Benefit low- and moderate-income persons; or,
2. Aid in the prevention or elimination of slums or blight; or,

3. Address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.

Generally, the following types of activities are ineligible:

1. Acquisition, construction, or reconstruction of buildings for the general conduct of government
2. Political activities
3. Certain income payments
4. Construction of new housing (with some exceptions)

CDBG funds may be used for activities which include those detailed in the following tables:

Acquisition, Disposition, Clearance, Relocation	
Acquisition of Real Property	Cleanup of Contaminated Sites
Disposition of Real Property	Relocation
Clearance and Demolition	

Administration and Planning	
Planning	Submission of Applications for Federal Programs
General Program Administration	CDBG Funding of HOME Administration
CDBG Funding of HOME CHDO Operating Exp.	Indirect Costs
Public Information	Fair Housing Activities
Rehab: Administration	

Economic Development	
Rehab: Publicly or Privately Owned Commercial/Industrial (CI)	CI: Other Improvements
CI: Acquisition/Disposition	ED: Direct Financial Assistance to For-Profits
CI: Infrastructure Development	ED: Technical Assistance
CI: Building Acquisition, Construction, Rehab	ED: Micro-Enterprise Assistance

Housing	
Construction of Housing	Rehab: Acquisition
Direct Homeownership Assistance	Rehab: Administration
Rehab: Single-Unit Residential	Lead-Based Testing/Abatement Paint/Lead Hazards

Rehab: Multi-Unit Residential	Housing Services
Rehab: Public Housing Modernization	Residential Historic Preservation
Rehab: Other Publicly Owned Residential Buildings	Operation/Repair of Foreclosed Property
Rehab: Energy Efficiency Improvements	

Public Facilities and Infrastructure Improvements	
Senior Centers	Sidewalks
Handicapped Centers	Child Care Centers
Homeless Facilities (not operating costs)	Tree Planting
Youth Centers	Fire Stations/Equipment
Health Facilities	Neighborhood Facilities
Facilities for Abused and Neglected Children	Parks, Recreational Facilities
Parking Facilities	Asbestos Removal
Solid Waste Disposal Improvements	Facilities for AIDS Patients (not operating costs)
Flood Drainage Improvements	Water/Sewer Improvements
Other Public Facilities/Improvements	Street Improvements

Public Services	
Senior Services	Services for Abused and Neglected
Handicapped Services	Mental Health Services
Legal Services	Screening for Lead Poisoning
Youth Services	Subsistence Payments
Transportation Services	Homeownership Assistance (not direct)
Substance Abuse Services	Services for Battered and Abused Spouses
Rental Housing Subsidies	Employment Training
Security Deposits	Housing Counseling
Crime Awareness/Prevention	Neighborhood Cleanups
Fair Housing (subject to Public Services cap)	Food Banks
Operating Costs of Homeless/AIDS	Tenant/Landlord Counseling Patients Programs
Child Care Services	Health Services
Other Public Services	

Repayment of Section 108 Loans	
Planned Repayments of Section 108 Loans	Unplanned Repayments of Section 108 Loans

Other	
Interim Assistance	Non-Profit Organization Capacity Building
Urban Renewal Completion	Non-Residential Historic Preservation
Loss of Rental Income	Privately Owned Utilities
Tornado Shelters Serving Private	Code Enforcement Mobile Home Parks

SECTION 108 LOAN PROGRAM OVERVIEW

The Section 108 Loan Guarantee Program (Section 108) provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and other physical development projects, including improvements to increase their resilience against natural disasters. This flexibility makes it one of the most potent and important public investment tools that HUD offers to communities.

Section 108 provides the City with the ability to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects capable of revitalizing entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas.

As of December 2017, the City had a Section 108 loan maximum borrowing capacity of \$24,931,455 (5X CDBG 2017 Award of \$4,986,291) and after accounting for current Section 108 loan balances, a Section 108 available borrowing capacity of \$16,936,455.

The City currently has a Section 108 loan that funds Economic Development Activities that contains an uncommitted balance; which may be available for South 12th Avenue Corridor activities.

Under Section 108, project costs can be spread over time with flexible repayment terms, and the City can take advantage of lower interest rates than could be obtained from other governmental or private financing sources.

ELIGIBLE ACTIVITIES

Section 108 funds may be used for the following activities, provided such activities meet CDBG funding requirements of 24 CFR 570.200:

1. Acquisition of improved or unimproved real property in fee or by long-term lease, including acquisition for economic development purposes.
2. Rehabilitation of real property owned or acquired by the public entity or its designated public agency.

3. Section 108 interest payments
4. Relocation payments and other relocation assistance for individuals, families, businesses, nonprofit organizations, and farm operations who must relocate permanently or temporarily as a result of an activity financed with guaranteed loan funds, where the assistance meets specified requirements
5. Clearance, demolition, and removal, including movement of structures to other sites and remediation of properties with known or suspected environmental contamination, of buildings and improvements on real property acquired or rehabilitated pursuant to paragraphs “1” and “2” above.
6. Site preparation, including construction, reconstruction, installation of public and other site improvements, utilities or facilities (other than buildings), or remediation of properties with known or suspected environmental contamination, pursuant to “1” and “2” above, or for an economic development purpose.
7. Payment of issuance, underwriting, servicing, trust administration and other costs associated with private sector financing of debt obligations related to public offering.
8. Housing rehabilitation eligible under 24 CFR 570.202.
9. Economic Development Activities eligible under 24 CFR 570.203; and Community Economic Development projects eligible under 24 CFR 570.204.
10. Debt Service Reserve to be used in accordance with requirements specified in the contract entered into for the Section 108 loan.
11. Acquisition, construction, reconstruction, rehabilitation or historic preservation, or installation of public facilities (except for buildings for the general conduct of government), including public streets, sidewalks, other site improvements and public utilities, and remediation of known or suspected environmental contamination in conjunction with these activities.
12. In the case of applications by public entities which are, or which contain, “colonias” as defined in section 916 of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 5306 note), as amended by Section 810 of the Housing and Community Development Act of 1992, acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements which serve the Colonia.
13. Payment of credit subsidy fees charged by HUD.

The loan funds may not be used to reimburse the CDBG program account or line of credit for costs incurred by the public entity or designated public agency and paid with CDBG grant funds or program income.